



## **UMVOTI LOCAL MUNICIPALITY**

**Annual Financial Statements  
for the year ended June 30, 2019**

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## GENERAL INFORMATION

---

### EXECUTIVE COMMITTEE

Mayor

TC Ngubane (Mayor)  
NG Masikane (Deputy Mayor)  
W Khoza ( Speaker)  
LT Gwala (Exco member)  
SV Zondi (Exco member)  
R Maharaj (Exco member)

Councillors

BD Madonsela  
JM Mveli  
ND Dlamini  
MD Khanyile  
MR Dlamini  
MS Zondi  
MS Yengwa  
NJ Nzame  
PS Hlophe  
SS Xulu  
VB Njoko  
Z Zakwe  
ZC Ngema  
ZN Ndlovu  
CN Mkhize  
F Mayat  
GZ Malembe  
PMS Ngubane  
PT Zuma  
RS Maharaj  
SE Lembethe

### REGISTERED OFFICE

41 Bell Street/ King Dinizulu  
Greytown  
3250

### BANKERS

ABSA Bank

### AUDITORS

The Auditor General South Africa

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Index

---

The reports and statements set out below comprise the annual financial statements presented to the council:

	<b>Page</b>
Accounting Officer's Responsibilities and Approval	3
Statement of Financial Position	4
Statement of Financial Performance	5
Statement of Changes in Net Assets	6
Cash Flow Statement	7
Statement of Comparison of Budget and Actual Amounts	8 - 12
Accounting Policies	13 - 26
Notes to the Annual Financial Statements	27 - 56

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## ACCOUNTING OFFICER'S RESPONSIBILITIES AND APPROVAL

---

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at year end and the results of its operations and cash flows for the year. The external auditors are engaged to express an independent opinion on the annual financial statements and are given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, she sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

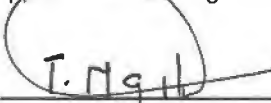
The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficiency.

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2020 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The accounting officer certifies that the salaries, allowances and benefits of councillors as disclosed in note 26 of these annual financial statements are within the upper limits of the framework envisaged in section 219 of the constitution, read with the Remuneration of Public Office Bearers Act (Act no.20 of 1998).

The internal auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements are examined by the municipality's external auditors and their report is presented to the council upon completion.

The annual financial statements set out on pages 4 to 58, which have been prepared on the going concern basis, were approved on 31 August 2019 and are signed by:

  
\_\_\_\_\_  
Accounting Officer  
Ms. T. N. Ngiba

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Statement of Financial Position as at June 30, 2019

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	3	1,806,870	1,886,300
Other receivables from exchange transactions	4	3,386,714	2,505,605
Receivables from exchange transactions	5	23,454,624	23,804,841
Receivables from non-exchange transactions	6	16,845,829	19,088,834
Cash and cash equivalents	7	12,653,539	13,748,182
		<b>58,147,576</b>	<b>61,033,762</b>
<b>Non-Current Assets</b>			
Biological assets	8	92,524,737	82,440,805
Investment property	9	54,343,000	50,099,000
Property, plant and equipment	10	471,421,960	461,751,903
Intangible assets	11	587,461	868,691
Heritage assets	12	355,590	355,590
		<b>619,232,748</b>	<b>595,515,989</b>
<b>Total Assets</b>		<b>677,380,324</b>	<b>656,549,751</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables from exchange transactions	13	48,890,147	41,671,479
VAT payable	14	15,331,725	13,531,721
Consumer deposits	15	2,435,465	2,416,479
Unspent conditional grants and receipts	16	7,241,474	5,744,484
Provisions	17	254,545	379,345
Employee benefit obligation	18	912,797	669,466
		<b>75,066,153</b>	<b>64,412,974</b>
<b>Non-Current Liabilities</b>			
Provisions	17	3,955,085	2,616,119
Employee benefit obligation	18	24,122,209	16,324,356
		<b>28,077,294</b>	<b>18,940,475</b>
<b>Total Liabilities</b>		<b>103,143,447</b>	<b>83,353,449</b>
<b>Net Assets</b>		<b>574,236,877</b>	<b>573,196,302</b>
Housing Development Fund	19	6,921	3,543,753
Accumulated surplus		574,229,956	569,652,549
<b>Total Net Assets</b>		<b>574,236,877</b>	<b>573,196,302</b>

\* See Note 43

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	20	78,992,744	74,548,553
Rental of facilities and equipment		1,105,364	1,805,374
Interest received (trading)		632,148	810,065
Agency services		1,445,872	1,365,766
Licences and permits		1,843,563	1,968,738
Other income	21	7,804,544	10,503,684
Interest earned	22	1,956,050	2,264,754
<b>Total revenue from exchange transactions</b>		<b>93,780,285</b>	<b>93,266,934</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	23	40,053,241	37,490,430
Property rates - penalties imposed	23	4,465,017	4,275,377
<b>Transfer revenue</b>			
Government grants & subsidies	24	152,060,263	140,560,223
Fines, Penalties and Forfeits		1,818,251	993,277
<b>Total revenue from non-exchange transactions</b>		<b>198,396,772</b>	<b>183,319,307</b>
<b>Total revenue</b>		<b>292,177,057</b>	<b>276,586,241</b>
<b>Expenditure</b>			
Employee related costs	25	109,007,958	101,596,112
Remuneration of councillors	26	9,985,791	9,609,282
Depreciation and amortisation	27	28,865,759	29,870,356
Finance costs	28	2,647,490	1,999,967
Debt Impairment	29	10,948,298	12,247,646
Bulk purchases	30	50,010,085	44,636,771
Contracted services	31	52,336,201	38,255,927
Indigent support	32	2,038,765	2,846,066
General expenses	33	33,495,907	33,635,817
<b>Total expenditure</b>		<b>299,336,254</b>	<b>274,697,944</b>
<b>Operating (deficit) surplus</b>		<b>(7,159,197)</b>	<b>1,888,297</b>
Gain on disposal of assets and liabilities		484,520	-
Fair value adjustments		14,327,932	82,445,805
Actuarial losses)/ gains	18	(6,612,680)	2,496,377
		<b>8,199,772</b>	<b>84,942,182</b>
<b>Surplus for the year</b>		<b>1,040,575</b>	<b>86,830,479</b>

\* See Note 43

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Statement of Changes in Net Assets

Figures in Rand	Housing Development Fund	Accumulated surplus	Total net assets
<b>Balance at July 1, 2017 restated - note 43</b>	<b>3,353,876</b>	<b>478,608,178</b>	<b>481,962,054</b>
Changes in net assets			
Surplus for the year	-	86,830,479	86,830,479
Interest transfer	189,877	(189,877)	-
Other transactions recognized directly in accumulated surplus restated - note 43	-	4,403,769	4,403,769
Total changes	189,877	91,044,371	91,234,248
<b>Restated* Balance at July 1, 2018</b>	<b>3,543,753</b>	<b>569,652,549</b>	<b>573,196,302</b>
Changes in net assets			
Surplus for the year	-	1,040,575	1,040,575
Interest transfer	97,216	(97,216)	-
Housing projects	(3,634,048)	3,634,048	-
Total changes	(3,536,832)	4,577,407	1,040,575
<b>Balance at June 30, 2019</b>	<b>6,921</b>	<b>574,229,956</b>	<b>574,236,877</b>
Accumulated surplus has been restated, refer to Note 43 for details	19		

\* See Note 43

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Receipts from ratepayers, consumer debtors and others		140,216,194	134,947,766
Government grants		181,425,019	142,367,860
Interest income		1,956,050	2,264,754
		<u>323,597,263</u>	<u>279,580,380</u>
<b>Payments</b>			
Employees and councillors		(118,426,420)	(111,757,460)
Suppliers		(165,847,930)	(116,018,963)
Finance costs		(2,647,490)	(1,999,967)
		<u>(286,921,840)</u>	<u>(229,776,390)</u>
<b>Net cash flows from operating activities</b>	34	<b><u>36,675,423</u></b>	<b><u>49,803,990</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(38,418,462)	(40,398,137)
Proceeds from sale of property, plant and equipment	10	648,396	-
<b>Net cash flows from investing activities</b>		<b><u>(37,770,066)</u></b>	<b><u>(40,398,137)</u></b>
<b>Cash flows from financing activities</b>			
Movement in loan payable		-	(7,633,254)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b><u>(1,094,643)</u></b>	<b><u>1,772,599</u></b>
Cash and cash equivalents at the beginning of the year		13,748,182	11,975,583
<b>Cash and cash equivalents at the end of the year</b>	7	<b><u>12,653,539</u></b>	<b><u>13,748,182</u></b>

\* See Note 43



# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	86,236,153	(5,281,927)	<b>80,954,226</b>	78,992,744	<b>(1,961,482)</b>	48.1
Rental of facilities and equipment	4,835,457	(3,989,476)	<b>845,981</b>	1,105,364	<b>259,383</b>	48.2
Interest received (trading)	-	-	-	632,148	<b>632,148</b>	48.3
Agency services	-	-	-	1,445,872	<b>1,445,872</b>	48.4
Licences and permits	2,744,079	726,299	<b>3,470,378</b>	1,843,563	<b>(1,626,815)</b>	48.4
Other income - (rollup)	235,550	6,953,815	<b>7,189,365</b>	7,804,544	<b>615,179</b>	48.5
Interest received - investment	1,578,000	200,000	<b>1,778,000</b>	1,956,050	<b>178,050</b>	
<b>Total revenue from exchange transactions</b>	<b>95,629,239</b>	<b>(1,391,289)</b>	<b>94,237,950</b>	<b>93,780,285</b>	<b>(457,665)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	39,703,515	640,141	<b>40,343,656</b>	40,053,241	<b>(290,415)</b>	
Property rates - penalties imposed	9,657,360	(5,277,305)	<b>4,380,055</b>	4,465,017	<b>84,962</b>	
<b>Transfer revenue</b>						
Government grants & subsidies	156,342,000	39,371,206	<b>195,713,206</b>	152,060,263	<b>(43,652,943)</b>	48.11
Fines, Penalties and Forfeits	211,230	(147,016)	<b>64,214</b>	1,818,251	<b>1,754,037</b>	48.6
<b>Total revenue from non-exchange transactions</b>	<b>205,914,105</b>	<b>34,587,026</b>	<b>240,501,131</b>	<b>198,396,772</b>	<b>(42,104,359)</b>	
<b>Total revenue</b>	<b>301,543,344</b>	<b>33,195,737</b>	<b>334,739,081</b>	<b>292,177,057</b>	<b>(42,562,024)</b>	
<b>Expenditure</b>						
Personnel	(117,652,697)	9,515,270	<b>(108,137,427)</b>	(109,007,958)	<b>(870,531)</b>	
Remuneration of councillors	(10,180,641)	-	<b>(10,180,641)</b>	(9,985,791)	<b>194,850</b>	
Depreciation and amortisation	(27,109,254)	(1,907,424)	<b>(29,016,678)</b>	(28,865,759)	<b>150,919</b>	48.7
Finance costs	-	(193,673)	<b>(193,673)</b>	(2,647,490)	<b>(2,453,817)</b>	48.8
Debt Impairment	(18,533,962)	5,933,924	<b>(12,600,038)</b>	(10,948,298)	<b>1,651,740</b>	48.12
Bulk purchases	(55,502,407)	4,000,406	<b>(51,502,001)</b>	(50,010,085)	<b>1,491,916</b>	
Contracted Services	(25,548,169)	(59,553,881)	<b>(85,102,050)</b>	(52,336,201)	<b>32,765,849</b>	48.9
Indigent support	(616,010)	-	<b>(616,010)</b>	(2,038,765)	<b>(1,422,755)</b>	
General Expenses	(44,753,990)	10,121,069	<b>(34,632,921)</b>	(33,495,907)	<b>1,137,014</b>	48.10
<b>Total expenditure</b>	<b>(299,897,130)</b>	<b>(32,084,309)</b>	<b>(331,981,439)</b>	<b>(299,336,254)</b>	<b>32,645,185</b>	
<b>Operating deficit</b>	<b>1,646,214</b>	<b>1,111,428</b>	<b>2,757,642</b>	<b>(7,159,197)</b>	<b>(9,916,839)</b>	
Gain on disposal of assets and liabilities	-	-	-	484,520	<b>484,520</b>	
Fair value adjustments	-	-	-	14,327,932	<b>14,327,932</b>	
Actuarial gains/losses	-	-	-	(6,612,680)	<b>(6,612,680)</b>	
	-	-	-	<b>8,199,772</b>	<b>8,199,772</b>	
<b>Surplus before taxation</b>	<b>1,646,214</b>	<b>1,111,428</b>	<b>2,757,642</b>	<b>1,040,575</b>	<b>(1,717,067)</b>	

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>1,646,214</b>	<b>1,111,428</b>	<b>2,757,642</b>	<b>1,040,575</b>	<b>(1,717,067)</b>	
<b>Reconciliation</b>						

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
--	--------------------	-------------	--------------	--	---	-----------

Figures in Rand

### Statement of Financial Position

#### Assets

##### Current Assets

Inventories	3,500,000	(1,520,000)	1,980,000	1,806,870	(173,130)	
Other receivables from exchange transactions	-	2,498,000	2,498,000	3,386,714	888,714	
Receivables from non-exchange transactions	-	-	-	16,845,829	16,845,829	48.13
Receivable from exchange transactions	31,409,019	13,880,019	45,289,038	23,454,624	(21,834,414)	48.13
Cash and cash equivalents	15,316,094	(12,870,094)	2,446,000	12,653,539	10,207,539	
	<b>50,225,113</b>	<b>1,987,925</b>	<b>52,213,038</b>	<b>58,147,576</b>	<b>5,934,538</b>	

##### Non-Current Assets

Biological assets	-	82,441,000	82,441,000	92,524,737	10,083,737	
Investment property	42,605,000	7,209,000	49,814,000	54,343,000	4,529,000	
Property, plant and equipment	474,468,344	3,810,656	478,279,000	471,421,960	(6,857,040)	48.21
Intangible assets	1,474,000	(886,000)	588,000	587,461	(539)	
Heritage assets	314,000	42,000	356,000	355,590	(410)	
	<b>518,861,344</b>	<b>92,616,656</b>	<b>611,478,000</b>	<b>619,232,748</b>	<b>7,754,748</b>	

#### Total Assets

	<b>569,086,457</b>	<b>94,604,581</b>	<b>663,691,038</b>	<b>677,380,324</b>	<b>13,689,286</b>	
--	--------------------	-------------------	--------------------	--------------------	-------------------	--

#### Liabilities

##### Current Liabilities

Payables from exchange transactions	50,232,660	16,623,000	66,855,660	48,890,148	(17,965,512)	48.14
VAT payable	-	-	-	15,331,725	15,331,725	48.15
Consumer deposits	2,718,368	(180,368)	2,538,000	2,435,465	(102,535)	
Employee benefit obligation	-	-	-	912,797	912,797	48.16
Unspent conditional grants and receipts	-	-	-	7,241,474	7,241,474	48.17
Provisions	-	1,101,000	1,101,000	254,545	(846,455)	48.16
	<b>52,951,028</b>	<b>17,543,632</b>	<b>70,494,660</b>	<b>75,066,154</b>	<b>4,571,494</b>	

##### Non-Current Liabilities

Employee benefit obligation	-	-	-	24,122,209	24,122,209	48.16
Provisions	728,499	18,212,501	18,941,000	3,955,085	(14,985,915)	48.16
	<b>728,499</b>	<b>18,212,501</b>	<b>18,941,000</b>	<b>28,077,294</b>	<b>9,136,294</b>	

#### Total Liabilities

	<b>53,679,527</b>	<b>35,756,133</b>	<b>89,435,660</b>	<b>103,143,448</b>	<b>13,707,788</b>	
--	-------------------	-------------------	-------------------	--------------------	-------------------	--

#### Net Assets

	<b>515,406,930</b>	<b>58,848,448</b>	<b>574,255,378</b>	<b>574,236,876</b>	<b>(18,502)</b>	
--	--------------------	-------------------	--------------------	--------------------	-----------------	--

#### Net Assets

##### Net Assets Attributable to Owners of Controlling Entity

##### Reserves

Housing Development Fund	3,353,876	-	3,353,876	6,921	(3,346,955)	
--------------------------	-----------	---	-----------	-------	-------------	--

## UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

### Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Accumulated surplus	512,053,054	58,848,448	<b>570,901,502</b>	574,229,955	<b>3,328,453</b>	
<b>Total Net Assets</b>	<b>515,406,930</b>	<b>58,848,448</b>	<b>574,255,378</b>	<b>574,236,876</b>	<b>(18,502)</b>	

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Receipts from ratepayers, consumer debtors and others	113,730,277	8,754,997	<b>122,485,274</b>	140,216,194	<b>17,730,920</b>	48.18
Government grants	123,462,600	72,425,306	<b>195,887,906</b>	181,425,019	<b>(14,462,887)</b>	48.11
Interest income	8,988,288	(7,210,288)	<b>1,778,000</b>	1,956,050	<b>178,050</b>	
Increase (decrease) in consumer deposits	-	121,858	<b>121,858</b>	-	<b>(121,858)</b>	
	<b>246,181,165</b>	<b>74,091,873</b>	<b>320,273,038</b>	<b>323,597,263</b>	<b>3,324,225</b>	
<b>Payments</b>						
Employee costs	(127,833,338)	9,514,911	<b>(118,318,427)</b>	(118,426,420)	<b>(107,993)</b>	48.19
Suppliers	(115,809,773)	(53,530,630)	<b>(169,340,403)</b>	(165,847,931)	<b>3,492,472</b>	48.20
Finance costs	-	-	-	(2,647,490)	<b>(2,647,490)</b>	
	<b>(243,643,111)</b>	<b>(44,015,719)</b>	<b>(287,658,830)</b>	<b>(286,921,841)</b>	<b>736,989</b>	
<b>Net cash flows from operating activities</b>	<b>2,538,054</b>	<b>30,076,154</b>	<b>32,614,208</b>	<b>36,675,422</b>	<b>4,061,214</b>	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(39,537,000)	(4,379,390)	<b>(43,916,390)</b>	(38,418,462)	<b>5,497,928</b>	48.21
Proceeds from sale of property, plant and equipment	-	-	-	648,396	<b>648,396</b>	
<b>Net cash flows from investing activities</b>	<b>(39,537,000)</b>	<b>(4,379,390)</b>	<b>(43,916,390)</b>	<b>(37,770,066)</b>	<b>6,146,324</b>	
Net increase/(decrease) in cash and cash equivalents	(36,998,946)	25,696,764	<b>(11,302,182)</b>	(1,094,644)	<b>10,207,538</b>	
Cash and cash equivalents beginning of the period	11,975,583	1,772,599	<b>13,748,182</b>	13,748,182	-	
<b>Cash and cash equivalents at the end of the year</b>	<b>(25,023,363)</b>	<b>27,469,363</b>	<b>2,446,000</b>	<b>12,653,538</b>	<b>10,207,538</b>	

The accounting policies on pages 13 to 26 and the notes on pages 27 to 56 form an integral part of the annual financial statements.

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## ACCOUNTING POLICIES

---

### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Going concern assumption

These annual financial statements have been prepared based on the assumption that the municipality will continue to operate as a going concern for at least 12 months..

#### 1.3 Changes in accounting policies and comparability

Changes in accounting policies due to adoption of newly effective Standards of GRAP are applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of a change in policy or where allowed transitional provisions are adopted. In such cases the municipality would restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Errors are corrected retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality would restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

The municipality changes an accounting policy only if the change:

- a) is required by a Standard of GRAP; or
- b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the performance or cash flow.

#### 1.4 Comparative information

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

#### 1.5 Significant judgements and sources of estimation uncertainty

The following are the critical judgments, apart from those involving estimations, that management has made in the process of applying the municipality's accounting policies and that have the most significant effect on the amounts recognised in the annual financial statements:

#### Financial assets and liabilities

The classification of financial assets and liabilities into categories is based on relevant accounting standards as assessed by management.

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

---

### 1.5 Significant judgements and sources of estimation uncertainty (continued)

#### Impairment: Write down of Property, Plant and Equipment (PPE) and inventories

An allowance for writing inventory down to the lower of cost or net realisable value where required, management determine estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the surplus or deficit for the period in which it arises.

Significant estimates and judgments are made relating to PPE impairment tests and impairment of inventories.

#### Impairment of financial assets

In making the estimation of impairment, management of the municipality considers the detailed criteria of impairment of financial assets as set out in GRAP 104: Financial Instruments. Management of the municipality is satisfied that the impairment of financial assets recorded during the year, is appropriate.

#### Useful lives of Property, Plant and Equipment

The municipality depreciates/amortises its property, plant and equipment, and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge. The depreciable amount of an asset shall be allocated on a systematic basis over its useful life. The municipality shall assess at each reporting date whether there is any indication that the entity's expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the entity shall revise the expected useful life and/or residual value accordingly. The change(s) shall be accounted for as a change in an accounting estimate in accordance with the Standard of GRAP on Accounting policies, Changes in Accounting Estimates and Errors (GRAP 3).

#### Defined benefit plan liabilities

The municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are post-retirement health benefit obligations and long-service awards. Details of the liabilities are provided in the notes to the annual financial statements. Assumptions of the actuaries are contained in the actuary reports.

Multi-employer defined benefit funds are accounted for as defined contribution plans.

#### Biological assets

The fair value of plantations is subject to the conversion of hectares to tons. The municipality engages the services of professional valuers for the determination of fair value.

#### Cash generating/ non-cash generating assets

The municipality's assets are used for service delivery and are therefore classified as non cash generating assets.

#### Revenue recognition

In making their judgement, management considers the detailed criteria for the recognition of revenue in particular when services are rendered, whether the service has been rendered. Management of the municipality is satisfied that recognition of revenue in the current year is appropriate. Revenue from plantation sale is recognised when all the risk and rewards of ownership have been passed to the buyer.

### 1.6 Biological assets

The municipality owns wattle, gum and pine plantations. For subsequent measurement the plantations are measured at fair value less cost to sell.

Fair value is based on active market prices less costs to sell for timber at rotation age and the cost value approach for timber at pre-rotation age.

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

---

### 1.6 Biological assets (continued)

A gain or loss arising on subsequent measurement is recognised in surplus or deficit for the period in which the gain or loss arises.

### 1.7 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the provision of services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

### 1.8 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one reporting period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or assets, or a combination of assets and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value is not determinable, it's deemed cost is the carrying amount of the asset(s) given up.



# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

---

### 1.8 Property, plant and equipment (continued)

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Land is not depreciated as it is regarded as having an indefinite life. Depreciation of assets other than land is calculated, using the straight line method, to depreciate their cost to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciation rates are based on the following estimated useful lives.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	5 to 50 Years
Furniture and fixtures	7 to 10 Years
Motor vehicles	5 to 10 Years
Office equipment	3 to 5 Years
Infrastructure	
• Roads and Paving	10 to 20 Years
• Pedestrian Malls	3 Years
• Major Substation Buildings	10 to 50 Years
• Transformers and Related Equipment	20 to 50 Years
• Mains	20 Years
• Street Lights	20 Years
Community	
• Buildings	5 to 50 Years
• Security	5 to 10 Years
Other property, plant and equipment	3 Years

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of the asset.

### Subsequent measurement

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property plant and equipment, are measured at cost (which includes deemed cost for previously unrecognised assets), less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

---

### 1.9 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	5 Years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from their use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

### 1.10 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

#### Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

---

### 1.10 Heritage assets (continued)

#### Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

#### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

#### Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

### 1.11 Financial instruments

#### Classification

The municipality has the following types of financial assets ( classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivable from non-exchange transaction	Financial asset measured at amortised cost
VAT receivable	Financial asset measured at amortised cost
Receivable from exchange transaction	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payable from exchange transaction	Financial liability measured at amortised cost
VAT payable	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Unspent conditional grants	Financial liability measured at amortised cost
Provisions	Financial liability measured at amortised cost
Loan payable	Financial liability measured at amortised cost

#### Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument..

#### Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

---

### 1.11 Financial Instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition at amortised cost. All financial assets measured at amortised cost, are subject to an impairment review.

#### Impairment of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is an objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

#### Derecognition

##### Financial assets

The municipality derecognises financial assets when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the assets to another entity.

##### Financial liabilities

The municipality derecognises financial liabilities when the municipality's obligations are discharged, cancelled or they expire.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

#### Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

---

### 1.11 Financial instruments (continued)

#### Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

### 1.12 Leases

#### Operating leases - lessor

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

#### Operating leases - lessee

Operating lease rentals are recognised as an expense in surplus or deficit for the year on a straight-line basis over the term of the relevant lease.

### 1.13 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost determined on the weighted average basis and, net realisable value.

### 1.14 Impairment of non-cash-generating assets

#### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

---

### 1.14 Impairment of non-cash-generating assets (continued)

#### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating asset is determined using the following approach:

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an oversized or overcapacity asset. Oversized assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

---

### 1.14 Impairment of non-cash-generating assets (continued)

#### Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

### 1.15 Employee benefits

#### Short-term employee benefits

Remuneration to employees is recognised in surplus or deficit for the year as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is included as an accrual in financial liabilities. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

#### Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in surplus or deficit for the year in which the service is rendered by the relevant employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The municipality has no further payment obligations once the contributions have been paid.

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

---

### 1.15 Employee benefits (continued)

#### Pension benefits

The municipality and its employees contribute to the Natal Joint Municipal Pension Fund (Superannuation, Retirement and Provident fund). The KZN Municipal Pension Fund is a defined contribution fund. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable. Natal Joint Superannuation & Retirement Funds and Government Employee Pension Fund are defined benefit funds. The Natal Joint Provident Fund and South African Local Authority Pension Fund are defined contribution funds.

The schemes are funded through payments to fund administered or trustee-administered funds, determined by periodic actuarial calculations.

Defined benefit plans have been accounted for as defined contribution plans in accordance with the requirements on multi-employer plans where sufficient information is not available to account for such plans as defined benefit plans. As the fund administrators do not have sufficient information available to allocate the shortfall on liabilities to individual employers, no liability is recognised for any shortfall of fund assets as compared to fund liabilities. Any surcharges that may be levied by the fund from time to time in order to compensate for shortfalls, are recognised as expenses in the period in which they become payable to the fund. As surcharges are advised long in advance, based on actuarial valuations of the fund as a whole, the necessary provision for the payment thereof is made in the course of the municipality's normal budgeting processes.

#### Post-retirement health care benefits

The municipality has an obligation to provide post-retirement health care benefits to certain of its retirees. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service), on retirement, is entitled to remain a continued member of the medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and recognised actuarial gains and losses, adjusted by past service costs where applicable. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and an appropriate discount rate. Valuations of these obligations are carried out by independent qualified actuaries.

Actuarial gains or losses are accounted for in full and are recognised in the statement of financial performance.

#### Long service awards

The municipality has an obligation to provide benefits to its employees. The municipality's liability is based on actuarial valuation using actuary assumptions. Actuarial gains and losses on the long-term incentives are accounted for in surplus or deficit for the year.

### 1.16 Provisions and contingencies

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the statement of financial performance as a finance cost as it occurs.

Contingent assets and contingent liabilities are not recognised. Contingent liabilities are disclosed in the notes to the annual financial statements..



# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

---

### 1.17 Commitments

Capital commitments inclusive of VAT are disclosed for all assets and intangible assets. The commitment is measured at the value of the contract less amounts incurred.

### 1.18 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue comprises the fair value of the consideration received or receivable for the sale or rendering of services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits or service potential will flow to the municipality and when specific criteria have been met for each of the municipality's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the transaction have been resolved. The municipality bases its estimates on historical results, taking into consideration the consumer, transaction and the specifics of each arrangement.

#### Service charges

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made when meter readings cannot be performed.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff. Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale.

#### Plantation sales

Revenue from plantation sales is recognised when all the risks and rewards of ownership have passed to the buyer.

#### Approved Tariff charges and Rentals

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

Revenue from the rental of facilities and equipment classified as operating leases is recognised on a straight-line basis over the term of the lease agreement where material, where such lease periods span over more than one financial year.

### Finance Income

Interest earned on investments is recognised in surplus or deficit for the year on the time proportion basis that takes into account the effective yield on the investment.

### 1.19 Revenue from non-exchange transactions

Rates, including collection charges and penalties interest.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

#### Fines.

Revenue from issuing of Traffic Fines is recognised when it is probable that economic benefits associated with a transaction will flow to the Municipality and can be measured reliably.

Revenue from traffic fines is initially fair value and subsequently tested for impairment.

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

---

### 1.19 Revenue from non-exchange transactions (continued)

The revenue from traffic fines is subject to judicial process which is outside the municipality's control.

#### Public contributions.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Revenue is recognised at the fair value of the consideration received. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

#### Government grants and receipts.

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised as accounts receivable in the period in which they become receivable.

Interest earned on investments arising from grant received, is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the liability and if it is not payable to the funder, it is recognised as interest earned in surplus or deficit for the year.

### 1.20 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds. These costs are recognised as expenses in surplus or deficit for the year.

### 1.21 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.22 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.23 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.24 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from National and Provincial Government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to the fund.

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

---

### 1.24 Housing development fund (continued)

In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into fund. Where the municipality experiences a net loss on proceeds realised these are funded by the accumulated surplus. Monies standing to the credit of the fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

### 1.25 Value Added Tax (VAT)

The municipality accounts for VAT on the accruals basis.

Based on approval received from the Commissioner for South African Revenue Services, the municipality has been given permission to remit or claim for VAT on the payments basis for debtors and creditors.

### 1.26 Budget information

The municipality presents a comparison of the budget amounts for which it is held publicly accountable and actual amounts as a separate statement called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the financial statements. The budget and financial statements are comparable on an accruals basis.

### 1.27 Related parties

Individuals, including councillors, as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

### 1.28 Accounting by principals or agents

A principal-agent arrangement results from a binding arrangement in which one entity, the municipality, undertakes transactions with third parties on behalf, and for the benefit of, another entity, the principal. The municipality recognises increases in assets and related increases in liabilities on receipt of the related funding. The liability is reduced when the amounts are spent in accordance with fund conditions.

### 1.29 Events after reporting date

Events after the reporting date that have been classified as adjusting events are accounted for in the annual financial statements. Events after the reporting date that are classified as non-adjusting events after the reporting date are disclosed in the notes to the annual financial statements.

### 1.30 Offsetting

Assets, liabilities, revenue and expenses have not been offset, except where offsetting is required or permitted by Standards of GRAP.

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand

2019

2018

### 2. New standards and interpretations

#### 2.1 Standards and Interpretations early adopted

During the year under review the following directive became effective:

##### **Directive 12- The Selection of an Appropriate Reporting Framework by Public Entities**

This standard is not applicable to municipalities.

**The following GRAP standard which has been approved but is not yet effective has been used to develop an accounting policy.**

##### **GRAP 109 - Accounting by principles and agents**

This standard deals with the prescribed accounting requirements for transactions in a principle and agent relationship.

**The following new GRAP standards have been approved but are not yet effective**

##### **GRAP 20 - Related party disclosure**

This standard of GRAP on related parties replaces the IPSAS 20 standard on related party disclosure. No significant impact on the financial statements of the Municipality is expected.

##### **GRAP 32- Service concession arrangements: Grantor**

This standard of GRAP is to prescribe the accounting for service concession arrangements by the grantor, a public sector entity. A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time and the operator is compensated for its services over the period of the service concession arrangement. Although unlikely at this stage, the standard is only expected to have an impact on the Municipality in the event of any future such arrangements.

##### **GRAP 108- Statutory receivables**

This standard deals with the prescribed accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables and the effect thereof. The implementation of this Standard will result in additional disclosures over and above the disclosure in terms of GRAP 9 and GRAP 23.

##### **IGRAP 17- Service concession arrangements where grantor controls a significant residual interest in an asset**

This interpretation provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. The standard has no impact on the Municipality.

##### **IGRAP 18- Recognition and derecognition of land.**

This interpretation addresses the issues in relation to the recognition and derecognition of land under different scenarios. No significant impact on the financial statements of the municipality is expected.

##### **IGRAP 19- Liabilities to pay levies.**

This Interpretation provides guidance on the accounting for levies in the financial statements of the entity that is paying the levy. No significant impact on the financial statements of the municipality is expected.

**The following approved standards of GRAP that entities are not required to apply**

##### **GRAP 18- Segmental reporting (only municipalities and municipal entities are not required to apply).**

Compliance with this standard would have had an effect on the presentation only. Financial information would have been reported by segments. The disclosure of this information will assist users of the financial statements to better understand the historical performance and to identify the resources allocated to support the major activities of the municipality. This standard does not have any impact on the municipality.

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>3. Inventories</b>		
Consumables	1,806,870	1,886,300
Inventories recognised as an expense during the year	Note 33	7,815,001
<b>4. Other receivables from exchange transactions</b>		
Impairment	(390,125)	(390,125)
Accrued interest	25,905	10,576
Other receivables	3,750,934	2,885,154
	<b>3,386,714</b>	<b>2,505,605</b>
Other receivables include ESKOM deposits, sundry repayment agreements, deposits, destumping expenses and Insurance claims.		
<b>5. Receivables from exchange transactions</b>		
<b>Gross balances</b>		
Electricity	17,921,842	16,404,920
Refuse	10,553,290	9,990,114
Sale of timber	-	5,415,535
Housing rental	333,452	2,492,776
Other	16,457,165	10,044,642
	<b>45,265,749</b>	<b>44,347,987</b>
<b>Less: Allowance for impairment</b>		
Electricity	(5,985,455)	(5,333,751)
Refuse	(5,121,945)	(4,132,975)
Housing rental	(246,295)	(1,905,380)
Other	(10,457,430)	(9,171,040)
	<b>(21,811,125)</b>	<b>(20,543,146)</b>
<b>Net balance</b>		
Electricity	11,936,387	11,071,169
Refuse	5,431,345	5,857,139
Timber	-	5,415,535
Housing rental	87,157	587,396
Other	5,999,735	873,602
	<b>23,454,624</b>	<b>23,804,841</b>
<b>Electricity and Other</b>		
Current (0 -30 days)	9,582,179	13,946,465
31 - 60 days	1,910,921	1,396,279
61 - 90 days	2,262,836	1,133,833
91 - 120 days	1,429,577	1,098,652
121 - 365 days	30,080,236	26,772,758
	<b>45,265,749</b>	<b>44,347,987</b>

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
-----------------	------	------

### 5. Receivables from exchange transactions (continued)

#### Reconciliation of allowance for impairment

Balance at beginning of the year	20,543,146	6,975,448
Contributions to allowance	8,222,869	13,567,698
Debt impairment written off against allowance	(6,954,890)	-
	<b>21,811,125</b>	<b>20,543,146</b>

#### Consumer debtors past due but not impaired

Amounts owed by the Government and Government departments are not considered to be impaired. At June 30, 2019, R 2,128,813 (2018: R 1,678,462) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	2,501,039	1,009,608
2 months past due	940,410	491,806
3 months past due	2,262,836	177,048

### 6. Receivables from non-exchange transactions

Property Rates	28,097,711	29,425,403
Fines	3,848,630	7,109,638
Impairment	(15,100,512)	(17,446,207)
	<b>16,845,829</b>	<b>19,088,834</b>

#### Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At June 30, 2019, R 2,653,726 (2018: R 483,403) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	1,054,095	231,995
2 months past due	834,589	137,677
3 months past due	765,042	113,731

#### Rates

Current (0-30days)	3,646,523	3,912,466
31-60 days	834,588	761,842
61-90 days	765,042	641,699
91-120 days	681,202	619,766
> 120 days	22,170,356	23,489,630
	<b>28,097,711</b>	<b>29,425,403</b>

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
-----------------	------	------

### 6. Receivables from non-exchange transactions (continued)

#### Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	17,446,207	19,197,314
Increase/ (decrease) in impairment	2,725,429	(1,751,107)
Amounts written off as uncollectible	(5,071,124)	-
	<b>15,100,512</b>	<b>17,446,207</b>

### 7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	58,518	56,249
Bank balances	4,472,215	6,935,469
Short-term deposits	8,122,806	6,756,464
	<b>12,653,539</b>	<b>13,748,182</b>

#### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2019	June 30, 2018	June 30, 2017
ABSA Main bank account-4064988800	4,472,215	6,935,469	1,670,899	4,472,215	6,935,469	1,609,355
ABSA Call account-9184583753	1,296,584	1,239,263	1,183,176	1,296,584	1,239,263	1,183,176
ABSA Call account-9167223251	4,144,588	953,399	4,608,333	4,144,588	953,399	4,608,333
Nedbank Investment-03/7165015566/0041	-	-	4,524,585	-	-	4,524,585
Standard Bank Investment-268530947-044	-	3,536,833	-	-	3,536,833	-
Nedbank Investment-03/7165015566/000144	2,681,634	1,026,969	-	2,681,634	1,026,969	-
Cash on hand	-	-	-	58,518	56,249	50,134
<b>Total</b>	<b>12,595,021</b>	<b>13,691,933</b>	<b>11,986,993</b>	<b>12,653,539</b>	<b>13,748,182</b>	<b>11,975,583</b>

### 8. Biological assets

	2019			2018		
	Valuation	Fair value gain / (loss)	Carrying value	Valuation	Fair value gain / (loss)	Carrying value
Trees in a plantation forest	92,524,737	-	92,524,737	82,440,805	-	82,440,805

#### Reconciliation of biological assets - 2019

	Opening balance	Gains or losses arising from changes in fair value	Decreases due to harvest / sales	Total
Trees in a plantation forest	82,440,805	15,938,468	(5,854,536)	92,524,737

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand

2019

2018

### 8. Biological assets (continued)

#### Reconciliation of biological assets - 2018

	Opening balance	Initial recognition after expiry of Mondi lease	Gains or losses arising from changes in fair value	Decreases due to harvest / sales	Total
Trees in a plantation forest	-	69,031,189	23,069,602	(9,659,986)	82,440,805

The net increase in value is due to organic growth of trees that has taken place over the last twelve months, decrease in temporary unplanted areas, increase in the area of planted to wattle and conversion of pines from low value pulpwood to high value sawlogs.

The timber plantations were valued by Fractal Forest Africa on 16 August 2019.

Output of agricultural produce during the year was minimal.

#### Biological assets

Biological assets (the plantation) are consumable biological assets and comprise 2780 hectares of pines, and wattle grown largely for sawlogs.

The plantation is made up of a spread of immature and mature assets with ages ranging from one to twenty years.

The council is currently evaluating future business scenarios for the plantation which include the possible lease of the plantation forest. The municipality is not involved in any activities regarding the forest which is currently managed by an external forestry company with the object of restoring the forest to the desired working cycle. Except for restoration of the working cycle there are no other commitments for development.

#### Financial risk management strategies related to biological assets

The municipality has engaged the services of Bracken Forestry (Pty) Ltd to manage the forest and the services of Lionbee Investments (Pty) Ltd to oversee the management by Bracken Forestry. As set out in above the council is currently evaluating future business scenarios for the plantation.

#### Restrictions on use and capacity to sell biological assets

Standing pine on compartment A001 of Holmesdale is the subject of a sale agreement with Bracken Forestry (Pty) Ltd. Upon payment of the selling price for trees on this compartment Bracken Forestry (Pty) Ltd will have the right of harvesting.



# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 9. Investment property

	2019		2018	
	Cost / Valuation	Accumulated impairment	Carrying value	Cost / Valuation
Investment property	54,343,000	-	54,343,000	50,099,000
				50,099,000

### Reconciliation of investment property - 2019

	Opening balance	Fair value adjustments	Total
Investment property	50,099,000	4,244,000	54,343,000

### Reconciliation of investment property - 2018

	Opening balance	Other changes, movements	Total
Investment property	50,094,000	5,000	50,099,000

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

The valuation was conducted as at 30 June 2019 by BPG Mass Valuers (Pty) Ltd, a firm of registered, professional valuers using valuation standards laid down by the International Valuations Standards Council and adopted by the South African Council for the Property Valuers Profession.

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 10. Property, plant and equipment

	2019		2018			
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	19,420,574	-	19,420,574	19,420,574	-	19,420,574
Buildings	66,758,841	(15,678,409)	51,080,432	65,921,965	(13,842,335)	52,079,630
Plant and machinery	31,369,526	(19,672,553)	11,696,973	30,076,403	(16,733,074)	13,343,329
Motor vehicles	27,880,899	(10,877,717)	17,003,182	25,772,975	(9,467,531)	16,305,444
Infrastructure	385,730,168	(128,974,219)	256,755,949	349,476,575	(111,540,331)	237,936,244
Community	121,085,515	(24,690,643)	96,394,872	117,456,102	(20,675,102)	96,781,000
Work in Progress - Infrastructure	14,255,064	-	14,255,064	19,297,296	-	19,297,296
Work in Progress - Buildings	1,033,750	-	1,033,750	1,033,750	-	1,033,750
Other property, plant and equipment	7,873,967	(4,092,803)	3,781,164	6,991,438	(3,536,261)	3,455,177
Work in Progress - Community assets	-	-	-	2,099,459	-	2,099,459
<b>Total</b>	<b>675,408,304</b>	<b>(203,986,344)</b>	<b>471,421,960</b>	<b>637,546,537</b>	<b>(175,794,634)</b>	<b>461,751,903</b>

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 10. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	19,420,574	-	-	-	-	19,420,574
Buildings	52,079,630	757,253	-	79,623	(1,836,074)	51,080,432
Plant and machinery	13,343,329	959,508	-	333,615	(2,939,479)	11,696,973
Motor vehicles	16,305,444	2,664,619	(163,876)	-	(1,803,005)	17,003,182
Infrastructure	237,936,244	218,296	-	36,035,297	(17,433,888)	256,755,949
Community Assets	96,781,000	105,700	-	3,523,713	(4,015,541)	96,394,872
Work in Progress - Infrastructure	19,297,296	30,993,065	-	(36,035,297)	-	14,255,064
Work in Progress - Buildings	1,033,750	-	-	-	-	1,033,750
Other property, plant and equipment	3,455,177	882,529	-	-	(556,542)	3,781,164
Work in Progress - Community assets	2,099,459	1,837,492	-	(3,936,951)	-	-
	<b>461,751,903</b>	<b>38,418,462</b>	<b>(163,876)</b>	<b>-</b>	<b>(28,584,529)</b>	<b>471,421,960</b>

#### Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Transfers received	Other changes, movements	Depreciation	Impairment loss	Total
Land	19,420,574	-	-	-	-	-	19,420,574
Buildings	53,584,663	312,900	-	-	(1,817,933)	-	52,079,630
Plant and machinery	17,176,269	1,813,077	-	-	(5,646,017)	-	13,343,329
Motor vehicles	17,668,600	1,300,000	-	-	(2,270,337)	(392,819)	16,305,444
Infrastructure	242,712,211	183,670	10,791,143	-	(15,750,780)	-	237,936,244
Community	70,170,716	-	29,630,985	-	(3,020,701)	-	96,781,000
Work in Progress - Infrastructure	19,513,774	10,574,665	(10,791,143)	-	-	-	19,297,296
Work in Progress - Buildings	1,901,533	1,286,275	-	(2,154,058)	-	-	1,033,750
Other Property, plant and equipment	3,127,794	864,285	-	-	(536,902)	-	3,455,177
Work in Progress - Community Assets	7,667,179	24,063,265	(29,630,985)	-	-	-	2,099,459
	<b>452,943,313</b>	<b>40,398,137</b>	<b>-</b>	<b>(2,154,058)</b>	<b>(29,042,670)</b>	<b>(392,819)</b>	<b>461,751,903</b>

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
-----------------	------	------

### 10. Property, plant and equipment (continued)

#### Pledged as security

No assets were pledged as security:

#### Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected

Installation of High Masts Lights at Emakhabeleni Ward 6	6,299,016	-
Social unrest		
	<b>6,299,016</b>	<b>-</b>

The contractor for the installation of the Emakhabeleni High Mast Lights was forced to suspend operations and evacuate the site on 3 April 2019 after receiving threats from the members of the local community who were demanding sub contracts. The contractor is back on site after engagements between the municipality and the community.

#### Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Contracted services	3,418,746	4,171,014
---------------------	-----------	-----------

A register containing the information required by section 63 of the Municipal Finance management Act is available for inspection at the registered offices of the municipality.

### 11. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2,374,840	(1,787,379)	587,461	2,374,840	(1,506,149)	868,691

#### Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software	868,691	(281,230)	587,461

#### Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	1,303,559	(434,868)	868,691

#### Other information

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 12. Heritage assets

	2019	2018
--	------	------

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
-----------------	------	------

### 12. Heritage assets (continued)

	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical monuments	355,590	-	355,590	355,590	-	355,590

#### Reconciliation of heritage assets 2019

	Opening balance	Total
Historical monuments	355,590	355,590

#### Reconciliation of heritage assets 2018

	Opening balance	Total
Historical monuments	355,590	355,590

### Other information

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 13. Payables from exchange transactions

Trade payables	18,981,876	15,877,581
Accrued leave pay	9,204,186	7,639,191
Retentions	10,593,828	8,101,258
Sundry deposits	1,184,586	1,145,669
Staff bonus - accrual	2,959,721	2,756,310
Other creditors	5,965,950	6,151,470
	<b>48,890,147</b>	<b>41,671,479</b>

Other creditors include a total amount of R 3,431,049.70 relating to customers with credit balances and R 2,093,303.00 relating to unpresented cheques. The fair value of other creditors approximates their carrying value.

### 14. VAT payable

Tax refunds payables	15,331,725	13,531,721
----------------------	------------	------------

Value Added Tax becomes due and payable/ receivable upon payment to suppliers or receipt of cash from customers.

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>15. Consumer deposits</b>		
Electricity	2,435,465	2,416,479
<b>16. Unspent conditional grants and receipts</b>		
Unspent conditional grants and receipts comprise :		
<b>Unspent conditional grants and receipts</b>		
Municipal Infrastructure Grant (MIG)	-	14,380
Integrated National Electrification Programme (INEP)	97,977	-
Urban settlements grant	5,377,581	-
Taxi rank	98,264	98,264
Sports and recreation	342,893	292,893
Corridor development	2,040	2,040
Eshane development	374	374
Phasiwe farm	17,399	17,399
Gijima KZN	12,451	12,451
Storm damage	43,170	43,170
Specific program	77,353	77,353
Public donations	5,500	5,500
Massification	1,166,472	5,180,660
	<b>7,241,474</b>	<b>5,744,484</b>
<b>Movement during the year</b>		
Balance at the beginning of the year	5,744,484	3,936,847
Additions during the year	181,425,019	53,571,327
Expenditure during the year	(179,913,649)	(51,763,690)
Withheld	(14,380)	-
	<b>7,241,474</b>	<b>5,744,484</b>

The municipality is carrying balances from old grants for projects that have since been completed. The municipality is engaging the funders requesting utilisation of these balances on other projects/ items.

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)  
Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 17. Provisions

#### Reconciliation of provisions - 2019

	Opening Balance	Actuarial (gain) / loss	Current service cost	Past service cost	Interest cost	Vesting benefits	Total
Long Service Awards	2,995,464	740,523	249,350	347,469	256,169	(379,345)	4,209,630

#### Reconciliation of provisions - 2018

	Opening Balance	Actuarial (gain)/ loss	Current service cost	Interest cost	Vesting benefits	Total
Long Service Awards	2,873,419	(312,588)	386,445	239,767	(191,579)	2,995,464
Non-current liabilities	3,955,085	2,616,119				
Current liabilities	254,545	379,345				
	<b>4,209,630</b>	<b>2,995,464</b>				

The municipality rewards qualifying employees for serving a continuous period of 10, 15, 20, 25, 30, 35, 40 and 45 years. At each reporting date the municipality estimates the long service awards using qualified actuaries. As at 30 June 2019, the actuarial valuation was conducted by ARCH Actuarial Consulting.

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand

2019

2018

### 18. Employee benefit obligations

#### Defined benefit plan

##### Post retirement medical aid plan

The municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes ( Bonitas, Keyhealth, LA Health ,SAMWU Med) most of which offer a range of options pertaining to levels of cover. The post employment health care benefit actuarial valuation was conducted by Arch Actuarial Consulting. Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

##### Movement in the defined obligation plan

Opening balance	16,324,356	16,939,434
Current service costs	1,019,321	567,566
Interest cost	1,819,172	1,670,611
Actuarial (gain)/loss	5,872,157	(2,183,789)
Transferred to current	(912,797)	(669,466)
	<b>24,122,209</b>	<b>16,324,356</b>

##### Long service award

##### Movement in the defined benefit obligation

Opening balance	2,995,464	2,873,419
Current service costs	249,350	386,445
Interest cost	256,169	239,767
Actuarial(gain)/loss	740,523	(312,588)
Benefits vesting	(379,345)	(191,579)
Past-Service Cost (5-Year Award)	347,469	-
	<b>4,209,630</b>	<b>2,995,464</b>

##### Key assumptions used

Assumptions used on the post retirement medical aid plan at the reporting date:

Discount rates used 9.51 % 10.92 %

The average retirement age is 62 years.

##### Sensitivity results

The liability at the valuation date was recalculated to show the effect of:

- (i) A 1% increase and decrease in the assumed rate of health care cost inflation;
- (ii) A 1% increase and decrease in the discount rate;
- (iii) A one-year age reduction in the assumed rates of post-retirement mortality;
- (iv) A one-year decrease in the assumed average retirement age; and
- (v) A 10% decrease in the assumed proportion of in-service members that continue to receive the subsidy after retirement.



# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>19. Housing Development Fund</b>		
Opening balance	3,543,753	3,353,876
Utilised during the year	(3,634,049)	-
Interest	97,217	189,877
	<b>6,921</b>	<b>3,543,753</b>
<b>20. Service charges</b>		
Electricity revenue	69,873,065	65,991,486
Refuse revenue	9,119,679	8,557,067
	<b>78,992,744</b>	<b>74,548,553</b>
<b>21. Other income</b>		
Escort fees	271,608	171,002
Other income	433,441	468,152
Sale of timber	7,099,495	9,864,530
	<b>7,804,544</b>	<b>10,503,684</b>
<b>22. Interest earned</b>		
<b>Interest revenue</b>		
Bank	1,956,050	2,264,754
<b>23. Property rates</b>		
Residential	12,253,754	10,939,312
Commercial	14,661,461	14,003,515
State	8,934,123	8,427,981
Small holdings and farms	4,203,903	4,119,622
	40,053,241	37,490,430
Property rates - penalties imposed	4,465,017	4,275,377
	<b>44,518,258</b>	<b>41,765,807</b>
<b>Valuations</b>		
Residential	1,067,235,000	1,054,749,000
Commercial	464,917,000	449,637,000
State	344,786,000	345,486,000
Municipal	62,293,000	61,814,000
Small holdings and farms	1,256,369,100	1,255,159,100
Industrial	167,069,000	167,069,000
	<b>3,362,669,100</b>	<b>3,333,914,100</b>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The next general valuation will be implemented on 01 July 2020.

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>24. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	112,873,000	104,498,000
Museum subsidy	192,000	183,000
Library subsidy	1,873,000	1,094,000
Expanded Public Works Programme	1,849,000	1,007,000
Finance Management Grant (FMG)	1,870,000	1,800,000
Skills Development Grant	127,883	131,013
Housing	-	63,000
	<b>118,784,883</b>	<b>108,776,013</b>
<b>Capital grants</b>		
Municipal Infrastructure Grant (MIG)	33,275,380	27,619,620
Small Town Grant	-	4,164,590
	<b>33,275,380</b>	<b>31,784,210</b>
	<b>152,060,263</b>	<b>140,560,223</b>

### Conditional and Unconditional

Included in above are the following grants and subsidies recognised:

Conditional grants recognised	39,187,263	36,062,223
Unconditional grants received	112,873,000	104,498,000
	<b>152,060,263</b>	<b>140,560,223</b>

### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

### Museum subsidy

Current-year receipts	192,000	183,000
Conditions met - transferred to revenue	(192,000)	(183,000)
	-	-

### Library subsidy

Current-year receipts	1,873,000	1,094,000
Conditions met - expenditure off set from liability	(1,873,000)	(1,094,000)
	-	-

### Expanded Public Works Programme

Current-year receipts	1,849,000	1,007,000
Conditions met - offset from liability	(1,849,000)	(1,007,000)
	-	-

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>24. Government grants and subsidies (continued)</b>		
<b>Finance Management Grant (FMG)</b>		
Current-year receipts	1,870,000	1,800,000
Conditions met - transferred to revenue	(1,870,000)	(1,800,000)
	-	-
<b>Skills Development Grant</b>		
Current-year receipts	127,883	131,013
Conditions met - transferred to revenue	(127,883)	(131,013)
	-	-
<b>Municipal Infrastructure Grant (MIG)</b>		
Balance unspent at beginning of year	14,380	-
Current-year receipts	33,261,000	27,634,000
Conditions met - transferred to revenue	(33,261,000)	(27,619,620)
Withheld	(14,380)	-
	-	14,380
<b>Small Town Rehabilitation</b>		
Balance unspent at beginning of year	-	4,164,590
Conditions met - transferred to revenue	-	(4,164,590)
	-	-
<b>Taxi Rank</b>		
Balance unspent at beginning of year	98,264	98,264
Conditions still to be met - remain liabilities (see note 16).		
Provide explanations of conditions still to be met and other relevant information.		
<b>Sports and Recreation</b>		
Balance unspent at beginning of year	292,893	292,893
Current-year receipts	50,000	-
	342,893	292,893
Conditions still to be met - remain liabilities (see note 16).		
Provide explanations of conditions still to be met and other relevant information.		
<b>Corridor Development</b>		
Balance unspent at beginning of year	2,040	2,040
Conditions still to be met - remain liabilities (see note 16).		
Provide explanations of conditions still to be met and other relevant information.		

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>24. Government grants and subsidies (continued)</b>		
<b>Eshane development</b>		
Balance unspent at beginning of year	374	374
<b>Phasiwe farm</b>		
Balance unspent at beginning of year	17,399	17,399
Conditions still to be met - remain liabilities (see note 16).		
Provide explanations of conditions still to be met and other relevant information.		
<b>Gijima KZN</b>		
Balance unspent at beginning of year	12,451	12,451
Conditions still to be met - remain liabilities (see note 16).		
Provide explanations of conditions still to be met and other relevant information.		
<b>Storm damage</b>		
Balance unspent at beginning of year	43,170	43,170
Conditions still to be met - remain liabilities (see note 16).		
Provide explanations of conditions still to be met and other relevant information.		
<b>Specific programme</b>		
Balance unspent at beginning of year	77,353	77,353
Conditions still to be met - remain liabilities (see note 16).		
Provide explanations of conditions still to be met and other relevant information.		
<b>Public contribution</b>		
Balance unspent at beginning of year	5,500	5,500
Conditions still to be met - remain liabilities (see note 16).		
Provide explanations of conditions still to be met and other relevant information.		
<b>Housing</b>		
Current-year receipts	-	63,000
Conditions met - transferred to revenue	-	(63,000)
	-	-

## UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>24. Government grants and subsidies (continued)</b>		
<b>Urban settlements grants</b>		
Current-year receipts	20,207,819	-
Current year expenditure	(14,830,238)	-
	<b>5,377,581</b>	-

Funds not spent - remain liabilities (see note 16).

No revenue was realized due to the principal - agent relationship.

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>25. Employee related costs</b>		
Basic	76,504,458	72,092,859
Bonus	5,395,892	4,989,902
Medical aid - company contributions	2,911,757	2,617,503
UIF	714,058	694,013
WCA	398,950	416,754
SDL	905,845	923,673
SALGA Levies	41,976	88,162
Leave pay	2,409,784	2,144,296
Cell allowances	85,000	126,900
Acting allowances	1,080,386	1,036,142
Pension contributions	8,859,598	8,476,015
Housing benefits and allowances	901,880	762,689
Overtime payments	2,081,515	2,441,102
Standby Allowance	346,400	323,774
Defined contribution plans	1,410,572	840,945
Group Life	988,183	985,847
Less: Employee costs included in other expenses	(137,735)	(647,213)
Protective clothing	1,159,360	254,487
Travel, motor car, accommodation, subsistence and other allowances	2,950,079	3,028,262
	<b>109,007,958</b>	<b>101,596,112</b>

### Remuneration of Municipal Manager

Annual Remuneration	914,825	291,766
Car Allowance	180,000	60,000
Acting Allowance	-	660,940
Housing	60,000	20,000
	<b>1,154,825</b>	<b>1,032,706</b>

### Remuneration of Chief Finance Officer

Annual Remuneration	648,270	176,505
Car Allowance	114,000	33,024
Acting Allowance	-	613,372
Housing	78,000	22,595
	<b>840,270</b>	<b>845,496</b>

### Remuneration of Manager: Corporate Services

Annual Remuneration	259,383	-
Car Allowance	63,150	-
Acting Allowance	164,786	272,401
Housing allowance	37,902	-
	<b>525,221</b>	<b>272,401</b>

Date of appointment: 01/03/2019.

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
-----------------	------	------

### 25. Employee related costs (continued)

#### Remuneration of Manager: Technical services

Annual Remuneration	245,518	-
Car Allowance	87,903	-
Acting Allowance	164,786	275,764
Housing	52,742	-
	<b>550,949</b>	<b>275,764</b>

Date of appointment: 01/03/2019.

#### Remuneration of Manager: Community Services (Acting)

Annual Remuneration	492,259	-
Acting Allowance	94,163	275,764
	<b>586,422</b>	<b>275,764</b>

Date of appointment: 04/12/2018.

#### Remuneration of Manager: Planning

Annual Remuneration	944,127	892,491
Car Allowance	120,000	120,000
Cellphone Allowance	6,000	6,000
	<b>1,070,127</b>	<b>1,018,491</b>

### 26. Remuneration of councillors

Transport allowances	1,612,019	1,490,360
Cellphone allowances	1,198,800	933,812
Councillors	7,174,972	7,185,110
	<b>9,985,791</b>	<b>9,609,282</b>

#### In-kind benefits

The Mayor and the Deputy Mayor and Speaker are provided with an office, secretarial support, vehicles and security at the cost of the Council. The mayor also enjoys the benefit of a council house.

#### Councillors allowances

Mayor	872,149	840,313
Speaker	706,600	681,135
Deputy Mayor	706,600	681,131
Executive committee members	1,172,812	1,133,541
Ordinary councillors	6,527,630	6,273,162
	<b>9,985,791</b>	<b>9,609,282</b>

### 27. Depreciation and amortisation

Property, plant and equipment	28,584,528	29,435,489
Intangible assets	281,231	434,867
	<b>28,865,759</b>	<b>29,870,356</b>

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
-----------------	------	------

### 28. Finance costs

Trade and other payables	572,149	89,589
Other interest accrued - changes in discount rates (Actuarial)	2,075,341	1,910,378
	<b>2,647,490</b>	<b>1,999,967</b>

Interest on trade and other payables includes interest on the legal determination of the IGODA case of R376,076.

### 29. Debt impairment

Debt impairment	10,948,298	12,247,646
-----------------	------------	------------

### 30. Bulk purchases

Electricity	50,010,085	44,636,771
-------------	------------	------------

### 31. Contracted services

Fleet services	2,362,211	2,211,087
Specialist services	29,330,248	21,279,295
Other contractors	20,643,742	14,765,545
	<b>52,336,201</b>	<b>38,255,927</b>

### 32. Indigent Support

#### Other subsidies

Indigent support - services and rates	2,038,765	2,846,066
---------------------------------------	-----------	-----------

The municipality provided indigent support to 662 (829:2018) indigent customers as at 30 June 2019.



# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>33. General expenses</b>		
Advertising	603,291	2,043,490
Audit committee expenses	221,092	962,580
Bank charges	734,612	775,807
Study assistance	977,954	1,919,192
Commission paid - CONTOUR	981,857	-
Community development	965,867	1,608,934
Conferences and seminars	-	100,000
Towing of vehicles	4,077	4,981
Entertainment	478,070	711,576
Ward Committee, Amakhosi Stipends	1,697,854	1,706,879
Hire charges	8,057,568	5,196,505
IT expenses	169,764	141,131
Insurance	1,230,897	610,815
Inventory consumed	7,815,003	6,883,096
Other expenses	225,326	186,844
Motor vehicle licensing	281,644	268,367
Postage and courier	269,217	128,269
Printing and stationery	1,163,137	704,847
Protective clothing	836,819	415,630
Subscriptions and membership fees	120,540	1,491,817
Telephone and fax	1,937,414	1,801,172
Title deed search fees	-	89,600
Training	262,430	1,094,249
Travel - local	1,651,934	2,434,784
Municipal services	2,809,540	2,355,252
	<b>33,495,907</b>	<b>33,635,817</b>
<b>34. Cash generated from operations</b>		
Surplus	1,040,575	86,830,479
<b>Adjustments for:</b>		
Depreciation and amortisation	28,865,759	29,870,356
Loss on sale of assets	(484,520)	-
Fair value adjustments	(14,327,932)	(82,445,805)
Debt impairment	10,948,298	12,247,646
Movements in retirement benefit assets and liabilities	8,041,184	(674,111)
Movements in provisions	1,214,166	122,042
Prior year adjustment	-	4,577,167
<b>Changes in working capital:</b>		
Inventories	79,430	40,336
Other receivables from exchange transactions	(881,109)	(199,171)
Receivable from exchange transaction	(10,598,081)	(12,336,508)
Other receivables from non-exchange transactions	2,243,005	240,336
Payables from exchange transactions	7,218,667	5,737,575
VAT	1,800,005	3,984,870
Unspent conditional grants and receipts	1,496,990	1,807,637
Consumer deposits	18,986	1,141
	<b>36,675,423</b>	<b>49,803,990</b>
<b>35. Auditors' remuneration</b>		
Fees	1,618,550	1,513,573

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>36. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Approved and contracted for</b>		
• Property, plant and equipment	30,862,016	5,524,793
<b>Total capital commitments</b>		
Already contracted for	30,862,016	5,524,793
<b>Authorised operational expenditure</b>		
<b>Approved and contracted for</b>		
• Operational - Professional fees	7,255,932	13,529,098
<b>Total operational commitments</b>		
Already contracted for	7,255,932	13,529,098
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	30,862,016	5,524,793
Authorised operational expenditure	7,255,932	13,529,098
	<b>38,117,948</b>	<b>19,053,891</b>

The municipality has contracted SIBGEM for electrification projects, however the commitments relating to the said contract have not been disclosed due to the agency/ principal relationship between the municipality and ESKOM.

### Operating leases - as lessee (expense)

<b>Minimum lease payments due</b>		
- within one year	1,139,412	414,518
- in second to fifth year inclusive	1,692,103	690,864
	<b>2,831,515</b>	<b>1,105,382</b>

Operating lease payments represent rentals payable by the municipality for certain of its office equipment.

### 37. Fruitless and wasteful expenditure

Balance brought forward	230,000	-
Current year	1,871,167	230,053
Fruitless and wasteful expenditure written off	(200,238)	-
	<b>1,900,929</b>	<b>230,053</b>

Fruitless and wasteful expenditure refers to the interest charged by Eskom and Telkom and the judgement on the IGODA case against the municipality.

No official has been held liable for the fruitless expenditure, hence it has been written off. The expenditure relating to IGODA Projects will be tabled before MPAC in the first quarter of the 2019/ 2020 financial year.

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>38. Irregular expenditure</b>		
Opening balance	9,940,838	109,179,515
Add: Other irregular expenditure	19,646,278	35,632,788
Amounts written off	(29,211,269)	(134,871,465)
	<b>375,847</b>	<b>9,940,838</b>

### 39. Deviation from supply chain management regulations

Deviations from SCM policy approved by the Accounting Officer.

The accounting officer may dispense with the official procurement process in certain circumstances, provided that she records the reasons for any deviations and reports them to the next meeting of the council and includes a note to the annual financial statements.

Deviation current year	15,715,519	5,048,251
Written off	(15,715,519)	-
	<b>-</b>	<b>5,048,251</b>

### 40. Electricity Distribution Losses

Units purchased (kwh)	48,826,920	48,119,089
Units sold (kwh)	(41,858,944)	(39,999,963)
Units lost in distribution (kwh)	6,967,976	8,119,153
<b>Total cost of Distribution losses in Rands</b>	<b>7,041,558</b>	<b>11,637,994</b>

The municipality incurred distribution losses during the period. These losses are calculated as the difference between power supplies invoiced by Eskom and amounts billed to consumers as above. The losses were due to ageing infrastructure and illegal connections.

The total distribution loss is 14.27% 30 June 2019 and 16.87 % (2018).

### 41. Contingencies

#### Contingent liabilities

Estimated contingent liabilities are set out below

- The amount for contingent liabilities disclosed below exclude claimant legal costs which cannot be readily quantified.
- There is a labour dispute for permanent absorption of security personnel. The matter is at Bargaining Council.

IGODA/ Breach of contract	-	1,179,927
Absorption of security and peace officers	3,931,218	-
	<b>3,931,218</b>	<b>1,179,927</b>

#### Contingent assets

The Municipality instituted legal action against Mngoe Transport (Private) Limited to recover an amount of R 2 488 050 for an item of Plant the Municipality ordered and paid for in full but was not delivered. According to Council's legal advisors, it is probable that the proceedings will result in the recovery of the full amount and this recovery is virtually certain.

### 42. Related parties

During the year no transactions were conducted with councillors or entities in which they held interests.

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
-----------------	------	------

### 42. Related parties (continued)

Particulars regarding remuneration to municipal management are set out in note 25

### 43. Prior period errors

**Property, plant and equipment** - adjustments have been made for impairment of motor vehicles as well as overaccrual and write off of work in progress.

**Payables from exchange transactions** - Accruals have been adjusted for overstatement involving work that had been done but not yet invoiced by the reporting date.

**Depreciation, amortisation and impairment** - Impairment was recognised for motor vehicles damaged in an accident by end of 2017/18.

**Accumulated surplus** - accumulated surplus was adjusted for the effects of the impairment of motor vehicles and work in progress projects that were written off.

The correction of the error(s) results in adjustments as follows:

#### Statement of financial position

Property, plant and equipment - 1 July 2017	-	(1,958,581)
Property, plant and equipment - 30 June 2018	-	(4,891,048)
Payables from exchange transactions	-	(385,085)
Payables from exchange transactions - Retentions	-	(2,918,667)
Receivables from non-exchange transactions	-	(240,277)
Other receivables from exchange transactions	-	126,179
Accumulated Surplus or Deficit 1 July 2017	-	(847,174)
Receivables from exchange transactions	-	2,500
Accumulated Surplus or Deficit - other transactions recognised in accumulated surplus	-	(173,401)
Accumulated Surplus or Deficit - surplus for the year - 2018	-	(392,819)

#### Statement of financial performance

Depreciation, amortisation and impairment expense	-	392,819
---	---	---------

#### Cash flow statement

##### Cash flow from operating activities

Payments to suppliers	-	385,090
-----------------------	---	---------

##### Property, plant and equipment at 1 July 2017

As previously reported	-	454,901,894
Work in progress written off	-	(1,958,581)
	-	<b>452,943,313</b>

##### Payables from exchange transactions

As previously reported	-	44,975,232
Work in progress expenditure overstated	-	(385,085)
Retentions written off	-	(2,918,667)
	-	<b>41,671,480</b>

##### Property, plant and equipment at 30 June 2018

As previously stated	-	466,642,451
Work in progress written off	-	(4,891,048)
	-	<b>461,751,403</b>

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>43. Risk management (continued)</b>		
<b>Receivables from non-exchange transactions</b>		
As previously reported	- 19,329,111	
Traffic fines written off	- (240,277)	
	<b>- 19,088,834</b>	
<b>Accumulated surplus - opening balance at 1 July 2017</b>		
As previously reported	- 479,455,352	
Work in progress written off	- (847,174)	
	<b>- 478,608,178</b>	
<b>Accumulated surplus - other transactions recognised in accumulated surplus</b>		
As previously reported	- 4,577,170	
Work in progress written off	- (173,401)	
	<b>- 4,403,769</b>	
<b>Accumulated surplus - surplus for the year</b>		
As previously stated	- 87,223,297	
Impairment of vehicle	- (392,819)	
	<b>- 86,830,478</b>	
<b>Depreciation, amortisation and impairment</b>		
As previously reported	- 29,477,537	
Impairment recognised	- 392,819	
	<b>- 29,870,356</b>	
<b>Other receivables from exchange transactions</b>		
As previously reported	- 2,379,426	
Deposits	- 128,679	
Debt arrangement	- (2,500)	
	<b>- 2,505,605</b>	
<b>Receivables from exchange transactions</b>		
As previously reported	- 23,802,341	
Debt arrangement	- 2,500	
	<b>- 23,804,841</b>	
<b>Cash flows from operating activities</b>		
As previously reported	- 50,189,080	
Work in progress expenditure overstated	- (385,090)	
	<b>- 49,803,990</b>	

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 44. Risk management

#### Maximum risk exposure

Credit risk consists mainly of cash deposits, cash equivalents and consumer debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Consumer receivables comprise a widespread customer base. Management evaluated credit risk relating to consumers on an ongoing basis. If consumers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the municipality.

These balances represent the maximum exposure to credit risk:

Cash and cash equivalents	12,653,539	13,748,182
Receivables from exchange	23,454,624	23,802,341
	<b>36,108,163</b>	<b>37,550,523</b>

#### Liquidity risk

The municipality's risks to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities into amounts due within 12 months after year end:

Payables from exchange transactions	48,817,652	44,975,232
Unspent Grants	7,438,630	5,744,484
	<b>56,256,282</b>	<b>50,719,716</b>

#### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

At 30 June 2019, financial instruments exposed to interest rate risk were call deposits and deposits.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates. With all other variables held constant, the municipality's surplus for the year is affected through the impact on variable rate investments as follows:

#### 1% Increase 2019

Cash and cash equivalents	126,535	137,480
Receivables from exchange transactions	234,546	238,023
	<b>361,081</b>	<b>375,503</b>

### 45. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent liabilities and commitments will occur in the ordinary course of business. However, economic factors, the escalating debtors book, electricity losses, exorbitant employee related costs and substantial increases in operational costs such as security costs, and forestry management costs contributed to the diminished liquidity position. The Eskom tariff setting structure which is not cost reflective also contributed to the liquidity problems.

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 45. Going concern (continued)

Numerous initiatives seeking to improve the financial health of the municipality and cash coverage are being undertaken such as, revenue enhancement programme – data cleansing, debtors amnesty programme, application for funding at DBSA, conversion of meters to prepaid smart meters and engaging with KZN Provincial Treasury to fast-track the process to secure a suitable partner to take over the ownership and risks associated with the forestry. In addition, cost containment initiatives are being implemented and these include reduction of security and travelling, catering and bursaries. In addition, there is a continuous review of policies as part of cost containment initiatives.

The ability of the municipality to continue as a going concern is dependent on the success of the abovementioned initiatives and that the accounting officer continues to procure funding for the ongoing operations of the municipality.

### 46. Unauthorised expenditure

Finance costs (Actuarial)	2,453,817	-
Indigent support	1,422,755	-
Actuarial loss	6,612,680	-
	<b>10,489,252</b>	<b>-</b>

The unauthorised expenditure was mainly a result of under budgetting. The matter will be brought before MPAC for consideration in the first quarter of 2019/ 2020 financial year.

### 47. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

Current year subscription / fee	1,185,390	161,723
Amount paid - current year	(1,185,390)	(161,723)
<b>Balance outstanding</b>	<b>-</b>	<b>-</b>

#### Audit fees

Current year subscription / fee	1,618,550	1,513,573
Amount paid - current year	(1,618,550)	(1,513,573)
<b>Balance unpaid-included in accounts</b>	<b>-</b>	<b>-</b>

#### PAYE and UIF and SDL

Current year subscription / fee	13,811,846	12,700,956
Amount paid - current year	(13,811,846)	(12,700,956)
<b>Balance unpaid</b>	<b>-</b>	<b>-</b>

#### Pension and Medical Aid Deductions

Current year subscription / fee	19,580,807	18,046,554
Amount paid - current year	(19,580,807)	(18,046,554)
<b>Balance outstanding</b>	<b>-</b>	<b>-</b>

# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 47. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Councillors' arrear consumer accounts

The following Councillors and staff had arrear accounts outstanding for more than 90 days at June 30, 2019:

June 30, 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Njoko VB	14,465	129,299	143,764
Dlamini MR	41,237	74,371	115,608
Ngubane TC	12,481	2,667	15,148
<b>Staff</b>			
Sikhakhane S	553	1,341	1,894
Sibiya N	553	2,187	2,740
Khumalo GP	15,747	39,785	55,532
Mbense MS	1,035	3,617	4,652
Mazeka DE	603	59	662
Zondi LC	553	54	607
Zakwe S	553	4,217	4,770
Goge T	558	7,430	7,988
Ximba S	561	7,806	8,367
Sithole SN	559	6,186	6,745
Sibeko B	559	7,812	8,371
Mngadi LL	2,856	46,723	49,579
Dlamini SSG	4,330	-	4,330
	<b>97,203</b>	<b>333,554</b>	<b>430,757</b>

June 30, 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Njoko VB	76,175	12,332	88,507
Dlamini MR	35,920	13,019	48,939
<b>Staff</b>			
Mzila TE	411	525	936
Sibiya N	3,601	527	4,128
Mdunge MN	4,646	558	5,204
Sikhakhane S	2,758	525	3,283
Zondi D	484	558	1,042
Mbense MS	6,147	615	6,762
Mazeka DE	274	572	846
Zakwe S	2,033	525	2,558
	<b>132,449</b>	<b>29,756</b>	<b>162,205</b>

### 48. Budget differences

**48.1 - Service charges** - A variance of 2.42% from the budget is considered acceptable.

**48.2 - Rental facilities** - Under - budgeted rental income after termination of Mondi lease.

**48.3 - Interest received** - interest received from the current account was not budgeted for in error.

**48.4 - Agency fees, Licences and permits** - For budget purposes agency fees were included with licences and permits yet shown separately in these financial statements. In total, less revenue was received during the year than anticipated.



# UMVOTI LOCAL MUNICIPALITY

(Registration number KZN245)

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand

2019

2018

### 48. Budget differences (continued)

**48.5 - Other income** - More revenue was realised from sale of pine than was budgeted for.

**48.6 - Fines, penalties and forfeits** - Traffic fines are budgeted for based on the historical trends of receipt of traffic fines. For financial statement purposes traffic fines are accrued in the year in which the offence occurs.

**48.7 - Depreciation** - variance within acceptable range.

**48.8 - Finance costs** - due to actuarial evaluation of long service awards and post employment medical aid benefits not budgeted for.

**48.9 - Contracted services** - The budget for Contracted Services includes Human Settlements and INEP funded projects. In the financial statements, actual expenditure on the human Settlements and INEP funded projects are excluded due to the agent/ principal relationship between the municipality and the funding source.

**48.10 - General expenses** - variance within acceptable range.

**48.11 - Government Grants** - Anticipated funds from Human Settlements in terms of bilateral agreements were not received. Refer to 48.9 above

**48.12 - Debt Impairment** - The municipality implemented a debt relief programme during the year which resulted in a lower provision for the year.

**48.13 - Receivables** - For budget purposes there is only one category of receivables. The financial statements categorise receivables into exchange and non exchange receivables. In total the variance is within an acceptable range.

**48.14 - Payables from exchange transactions** - Variance is attributable to reduced activity due to financial constraints.

**48.15 - VAT payable** - This relates to VAT on projects on agent/ principal arrangements from previous periods that was not budgeted for.

**48.16 - Post employment benefits and Long service awards** - these are actuarially determined items that were not budgeted for.

**48.17 - Unspent conditional grants and receipts** - the variance is mainly due to the appointment of a service provider for Urban Settlements not concluded by year end. Funds were received late.

**48.18 - Receipts from ratepayers, consumer debtors and others** - consumers responding to the debt relief initiative implemented by the municipality.

**48.19 - Payments to Employee costs** - some appointments were not filled during the year.

**48.20 - Payments to Suppliers** - The variance is attributed to reduced activity due to financial constraints.

**48.21 - Purchase of property, plant and equipment** - the variance is attributable to appointment of service providers not concluded in the reporting period as some funds were received late.